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AUDIT AND SCRUTINY COMMITTEE MONDAY, 13TH NOVEMBER, 2017

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held in the COUNCIL

HEADQUARTERS, NEWTOWN ST BOSWELLS on MONDAY, 13 NOVEMBER 2017 at 10.00 am

As previously agreed, there will be a meeting of Members of the Committee at 9.30 a.m. prior to the main meeting.

J. J. WILKINSON,
Clerk to the Council,
6 November 2017

BUSINESS		
1.	Apologies for Absence.	
2.	Order of Business.	
3.	Declarations of Interest.	
4.	<p>Minute. (Pages 3 - 8)</p> <p>Minute of Meeting of the Audit and Scrutiny Committee held on 25 September 2017 to be approved and signed by the Chairman. (Copy attached.)</p>	5 mins
5.	<p>Risk Management in Services</p> <p>Presentation by Service Director Assets & Infrastructure on the strategic risks facing the service and the internal controls and governance in place to manage/mitigate those risks to demonstrate how risk management is embedded within services. (Verbal presentation.)</p>	30 mins
6.	<p>Internal Audit Work to October 2017. (Pages 9 - 18)</p> <p>Consider a report by Chief Officer Audit & Risk on findings from recent work carried out by Internal Audit, including the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and other work in progress to deliver the approved Internal Audit Annual Plan 2017/18. (Copy attached)</p>	15 mins
7.	<p>Progress with Implementation of Internal Audit Recommendations. (Pages 19 - 26)</p> <p>Consider a report by Chief Officer Audit & Risk on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports during 2017/18 and previous years (Copy attached)</p>	15 mins
8.	Internal Audit Mid-Term Performance Report 2017/18. (Pages 27 - 38)	15 mins

	Consider a report by Chief Officer Audit & Risk on progress Internal Audit has made during the first half of the year towards completing the Annual Plan 2017/18 and an outline of performance. (Copy attached)	
9.	Mid-Term Treasury Management Report 2017/18. (Pages 39 - 54) Consider mid-term report by Chief Financial Officer on the Council's Treasury Management activities undertaken during first half of financial year 2017/18 for review and scrutiny prior to Council approval. (Copy attached.)	15 mins
10.	Any Other Items Previously Circulated.	
11.	Any Other Items which the Chairman Decides are Urgent.	

NOTES

1. **Timings given above are only indicative and not intended to inhibit Members' discussions.**
2. **Members are reminded that, if they have a pecuniary or non-pecuniary interest in any item of business coming before the meeting, that interest should be declared prior to commencement of discussion on that item. Such declaration will be recorded in the Minute of the meeting.**

Membership of Committee:- Councillors S. Bell (Chairman), H. Anderson, K. Chapman, J. A. Fullarton, S. Hamilton (Vice-Chairman), N. Richards, H. Scott, R. Tatler and E. Thornton-Nicol

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**SCOTTISH BORDERS COUNCIL
AUDIT AND SCRUTINY COMMITTEE**

MINUTES of Meeting of the AUDIT AND SCRUTINY COMMITTEE held in Council Chamber, Council Headquarters, Newtown St Boswells on Monday, 25 September 2017 at 10.15 am

Present:- Councillors S Bell (Chairman), H Anderson, K Chapman, J A Fullarton, S Hamilton (Vice-Chairman), N Richards, H Scott, R Tatler and E Thornton-Nicol.

Apologies:- Chief Executive, Mr Middlemiss.

In Attendance:- Chief Financial Officer, Chief Officer Audit and Risk, Capital and Investments Manager, Democratic Services Officer (J Turnbull).
Ms G Woolman, Mr A Haseeb and Mr G Samson - Audit Scotland.

1. WELCOME AND INTRODUCTIONS

The Chairman welcomed those present to the meeting and introduced Ms G Woolman, Mr A Haseeb, Mr G Samson from Audit Scotland, the Council's external auditors.

**DECISION
NOTED.**

2. MINUTE.

There had been circulated copies of the Minute of 28 June 2017.

**DECISION
APPROVED for signature by the Chairman.**

3. RISK MANAGEMENT IN SERVICES.

3.1 The Chairman welcomed Mr Philip Barr, Scottish Borders Council Executive Director and SB Cares Managing Director. Mr Barr was in attendance to give a presentation on Risk Management in Arms' Length External Organisations (ALEOs). Mr Barr explained that the presentation would detail the internal controls and governance in place to manage risk within SB Cares and LIVE Borders. He highlighted that it was important that there was clarity as to roles and responsibilities, to manage operational risk and maintain a level of service.

3.2 Mr Barr advised that LIVE Borders was an integrated trust for leisure, culture and sports, established in April 2016. The governance arrangements between LIVE Borders and the Council comprised a Management Team, Board of Trustees, Member-Trustee Liaison Group and Joint Officer Group. The LIVE Borders Management Team was responsible for the organisation's business plan and operational delivery and reported to the Board of Trustees, which in turn fed into the Member-Trustee Liaison Group. This Group met three times a year and was responsible for ensuring ongoing delivery of strategic goals, future priorities and commissioning. The Joint Officer Group liaised with the Member-Trustee Liaison Group and monitored the provision of the full service. The Joint Officer Group reported performance to the Council's Executive Committee and Corporate Management Team.

3.3 Mr Barr went on to discuss SB Cares, a Limited Liability Partnership (LLP) established in April 2015, delivering adult social care services. With regard to governance, SB Cares' Managing Director met weekly with the Finance & Commercial Director and Head of Operations to discuss delivery of the service, operational audit assurance and risk

management support. The Managing Director then reported to the SB Cares Board, which met monthly. The Board monitored progress and performance on service delivery including managing risks and internal audit updates. The Board then reported to quarterly meetings of the Strategic Governance Group. The Strategic Governance Group was responsible for ensuring that service objectives were met, and had strategic oversight of internal audit and risk management arrangements. Finally, the Strategic Governance Group reported to full Council.

- 3.4 Mr Barr then highlighted key risk considerations for both ALEOs including: alignment to corporate vision and strategic priorities, financial pressures, unpredictability of market, technological change, demand for service and changes to government legislation. Mr Barr concluded his presentation by referring to the tools and techniques used to manage risk, which included key performance measures which were monitored on a regular basis, self-evaluation, inspections, external scrutiny, regular monitoring of strategic service, operational risk and regular reporting.
- 3.5 In response to questions Mr Barr advised that SB Cares' monthly, quarterly and annual reports were overseen by Internal Audit. With respect to the function of the three councillors on the LIVE Borders Board of Trustees, he explained that their role was to ensure LIVE Borders met the goals and aspirations of the Council. The role of executive and non-executive directors was then discussed and in particular the importance of the non-executive role to hold the Board to account. With reference to the effectiveness of LIVE Borders Member-Trustee Liaison Group, Mr Barr advised that the Group could influence service delivery on a locality basis. The Chairman thanked Mr Barr for his attendance and presentation.
- 3.6 The Chief Officer Audit and Risk, Ms Stacey, advised that one of the Audit functions of the Committee was to ensure that risk management mechanisms were working across the entire business. The previous Audit and Risk Committee had introduced a call-back programme and Members had welcomed its continuance. The next Committee would receive a presentation from the Service Director Assets and Infrastructure on managing risks in his directorate including those relating to the capital programme. It was agreed that Ms Stacey circulate the schedule for presentations in order that the Committee could communicate the level of detail required from each presentation.

DECISION

(a) NOTED the presentation.

(b) AGREED to request the Chief Officer Audit and Risk circulate the schedule of forthcoming presentation to Members.

4. ANNUAL TREASURY MANAGEMENT REPORT 2016/17.

- 4.1 With reference to paragraph 8 of the Minute of 26 September 2016, there had been circulated copies of a report by the Chief Financial Officer presenting the annual report of treasury management activities undertaken during the 2016/17 financial year. The report was presented to Audit and Scrutiny Committee for review as part of their scrutiny role in relation to treasury management activities in the Council. The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) required an annual report on treasury management to be submitted to Council following the end of each financial year. This report highlighted the Council's treasury activity in the year ended 31 March 2017 and the performance of the Treasury function. Appendix 1 to the report comprised the annual treasury management activities for 2016/17 and contained an analysis of performance against targets set in relation to Prudential and Treasury Management Indicators. All of the performance comparisons reported upon were based on the revised indicators agreed as part of the mid-year report approved on 15 December 2016.
- 4.2 The Appendix also showed the Council's borrowing requirement to fund the capital investment undertaken during 2016/17, how much the Council actually borrowed against

the sums budgeted and the level of external debt carried on the Council's balance sheet within approved limits. The Council had, whenever possible, deferred borrowing and used surplus cash rather than undertaking additional long term borrowing during the year. However, the Council had undertaken short term borrowing for cash flow purposes and long term borrowing for capital purposes during the year, amounting to £9m and £12m respectively. Treasury management activity had been undertaken in compliance with approved policy and the Code and the Council remained under-borrowed against its Capital Financing Requirement (CFR) as at 31 March 2017. Reference was also made to the Treasury Management Training session delivered by Mr Richard Dunlop of Capita Asset Services to Members immediately prior to the meeting to facilitate consideration of this report.

- 4.3 In response to questions, Mr Robertson, acknowledged that although capital expansion plans were ambitious and subject to a variety of factors outwith the Council's control, these would be delivered in line with the Council's objectives. There were regular monitoring reports to the Executive Committee and the Service Director of Assets and Infrastructure would report on the risks to the November meeting of Audit and Scrutiny. Mr Robertson highlighted that the Council's actual capital expenditure for 2016/17 was £51.8m which was £15.7m less than projected as a result of delays to projects including Broomlands Primary School and the Great Tapestry of Scotland. With regard to a prospective interest rate increase, Mr Robertson advised that indications were that any future interest rate rises were likely to be gradual. A rise of ¼% would not give undue concern. He reassured Members that officers monitored rates on a daily basis and that the Council could borrow at a variety of fixed interest rates with different durations from the Public Works Loans Board at very short notice, to protect the Council against future interest rate rises if required. The prevailing interest rate environment supported the current policy of deferring fixed rate long term borrowing by utilising council cash balances. It was noted that Standard & Poor had downgraded the Council's bank, Bank of Scotland, from a stable to a negative outlook, with a long and short term outlook grading of A and A-1 respectively. The position was being closely monitored, with a review of the Council's banking service scheduled for 2018.

DECISION

- (a) **NOTED that treasury management activity in the year to 31 March 2017 was carried out in compliance with the approved Treasury Management Strategy and Policy.**
- (b) **AGREED that the Annual Treasury Management Report 2016/17, as detailed in Appendix 1 to the report, be presented to Council.**

5. ANNUAL REPORTS AND ACCOUNTS

5.1 (i) Scottish Borders Council Annual Reports and Accounts 2016/17

With reference to paragraph 6 of the Minute of 28 June 2017, there had been circulated copies of a report by Audit Scotland, the Council's external auditors. The report explained that Audit Scotland had now completed the audit of the Council's Annual Accounts for 2016/17 and had given an unqualified audit opinion in all cases. In addition, Audit Scotland concurred with management's accounting treatment and judgements; and had reached positive conclusions in respect of financial sustainability, financial management, governance, transparency and value for money. Ms Woolman, Audit Scotland was in attendance and summarised the report, in addition she advised that there were no material adjustments or unadjusted errors arising from the audit.

- 5.2 In response to questions, Mr Robertson advised that the £0.5m overspend noted with regard to the Scottish Wide Area Network (SWAN) was due to slippage in the project caused by the failure of an external partner to migrate sites. An action to recover this cost was ongoing in conjunction with Dumfries and Galloway Council and progress would be reported to the Executive Committee. Mr Robertson highlighted that further improvements would be made to the information Members received as part of budgetary

monitoring process including regular review of Strategic Asset Management Plans being developed for all asset classes. These would include information regarding quality, risk and delivery of benefits. With regard to the 46 outstanding equal pay claims, Mr Robertson advised that HR were progressing these as quickly as possible. Mr Robertson then referred to Bridge Homes LLP and explained that the project had been established to deliver 200 affordable housing across the Scottish Borders. Following a detailed analysis of available sites, the project had developed where possible. However, there was now likely to be limited opportunity for further development.

5.3 (ii) Scottish Borders Council Pension Fund Annual Audit Report 2016/17 and Statement of Accounts 2016/17

With reference to paragraph 7 of the Minute of 28 June 2017 there had been circulated copies of the above reports by Audit Scotland in respect of Scottish Borders Council Pension Fund. Ms Woolman advised there were no material adjustments to the unaudited financial statement arising from the audit. The only misstatement identified related to an overstated debtor with the Council of £168k. This had been adjusted by finance officers. Mrs Woolman highlighted the key message from the report was the benefits going out during 2016/17 exceeded the contributions coming in. However, it was noted that the Investment Strategy had been revised to reflect this, with a move away from growth generating assets such as equities to income generating assets which would positively impact on cash flow.

5.4 In response to questions, Mr Robertson advised that the Pension Fund assets were sufficient at the 2014 triennial valuation to meet 101% of its liabilities. The Council's Actuary, Barnett Waddingham, would present the 2017 Triennial valuation in December 2017 and this would set contribution rates for the following three years. Mrs Robb reiterated that the Fund's investment strategy had been revised to fulfil cash flow obligations and that instead of reinvesting annual dividends these were being drawn down to fulfil cash flow obligations. With regard to early retirement payments, Mr Robertson explained that this did not adversely affect the Fund as the Council compensated the Fund for all employee contributions that were lost through early retirement via the strain on the fund calculation undertaken for all approved early retirees.

DECISION

AGREED:

- (a) **the Scottish Borders Council's audited Annual Accounts for the year to 31 March 2017 (Appendix 1);**
- (b) **the Scottish Borders Council's Pension Fund audited Annual Accounts for the year to 31 March 2017 (Appendix 2);**
- (c) **the Scottish Borders Council Common Good Funds' (Charity SC031538) audited Annual Accounts for the year to 31 March 2017 (Appendix 3);**
- (d) **the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(i));**
- (e) **the SBC Education Trust (Charity SC044762) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(ii));**
- (f) **the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(iii));**
- (g) **the Thomas Howden Wildlife Trust (Charity SC015647) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(iv));**
- (h) **the Ormiston Trust for Institute Fund (Charity SC019162) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(v));**

- (i) **the Scottish Borders Council Charity Funds' (Charity SC043896) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(vi));**
- (j) **the Bridge Homes LLP audited Annual Accounts for the year to 31 March 2017 (Appendix 5);**
- (k) **the SB Supports audited Annual Accounts for the year to 31 March 2017 (Appendix 6 (i); and**
- (l) **the SB Cares audited Annual Accounts for the year to the 31 March 2017 (Appendix 6 (ii).**

MEMBER

Councillor Tatler left the meeting during consideration of the above report.

6. INTERNAL AUDIT WORK TO AUGUST 2017.

6.1 With reference to paragraph 9 of the Minute of 28 June 2017, there had been circulated copies of a report by the Chief Officer Audit and Risk which provided details of the recent work carried out by Internal Audit and the recommended audit actions agreed by management to improve internal controls and governance arrangements. The work Internal Audit had carried out during the period 10 June to 31 August 2017 was detailed in the report attached to the Agenda. It was noted that during the period, a total of five final Internal Audit reports have been issued. There were eight recommendations made relating to two of the reports which have been accepted by Management for implementation. An Executive Summary of the final Internal Audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was included in Appendix 1 to the report. The SBC Internal Audit function conformed to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 including the production of this report to communicate the results of the reviews.

6.2 Reference was made to paragraphs 3.6 and 3.7 of the report in respect of the Internal Audit Assurance work in progress. It was noted that Internal Audit staff had been involved in the independent validation of revenue budget data migrated to the new Business World ERP system. They had also provided a 'critical friend' role on the "How Good is Your Council" assessment. Discussion followed in respect of Fleet Management and the recommendations detailed in the report. It was agreed that the Service Director Assets and Infrastructure be requested to present a report to the Committee on the corrective actions in place to address the issues identified in the Fleet Management workforce plan.

DECISION:

- (a) **NOTED:**
 - (i) **The final assurance reports issued in the period from 10 June to 31 August 2017 associated with the delivery of the approved Internal Audit Annual Plan 2017/18;**
 - (ii) **The Internal Audit consultancy and other work undertaken in this period; and**
 - (iii) **The assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

- (b) **AGREED to request the Service Director Assets and Infrastructure present a report to the Audit and Scrutiny Committee advising the corrective action in place to address the issues identified in the Fleet Management workforce plan.**

7. **SCRUTINY REVIEW PROGRAMME.**

The Chairman advised that the Scrutiny Review item had been withdrawn. A report and the review program would be presented at the next meeting.

DECISION

NOTED that a report on the Scrutiny Review Program would be presented at the next Audit and Scrutiny meeting.

8. **THANKS**

The Chairman thanked Audit Scotland and officers for their attendance and comprehensive reports.

The meeting concluded at 1.05 pm

INTERNAL AUDIT WORK TO OCTOBER 2017

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

13 November 2017

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide members of the Audit and Scrutiny Committee with details of the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements.**
- 1.2 The work Internal Audit has carried out in the period from 1 September to 27 October 2017 is detailed in this report. During this period a total of 4 Final Internal Audit Reports have been issued. There was 1 recommendation made relating to one of the reports which has been accepted by Management for implementation.
- 1.3 An Executive Summary of the final Internal Audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.
- 1.4 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
- a) Notes the final assurance reports issued in the period from 1 September to 27 October 2017 associated with the delivery of the approved Internal Audit Annual Plan 2017/18;**
 - b) Notes the Internal Audit consultancy and other work undertaken in this period; and**
 - c) Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

3 PROGRESS REPORT

- 3.1 The Internal Audit Annual Plan 2017/18 was approved by the Audit and Risk Committee on 28 March 2017. As previously stated, it should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new arrangement or changing risks and priorities of the Council. Any amendments will be brought to this Committee for approval.
- 3.2 Internal Audit has carried out the following work in the period from 1 September to 27 October 2017, associated with the delivery of the approved Internal Audit Annual Plan 2017/18, to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 3.3 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

Internal Audit Reports

- 3.4 Internal Audit issued final assurance reports on the following subjects:
- Implementation of the Community Empowerment Act
 - Revenues: Council Tax
 - Registration Service
 - EU Grant Funded Programmes 2014-2020 LEADER and European Maritime & Fisheries Fund
- 3.5 An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories, as outlined in the approved Internal Audit Charter, are as follows:

Level	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Current Internal Audit Assurance Work in Progress

- 3.6 Internal Audit assurance work in progress to complete the delivery of the Internal Audit Annual Plan 2017/18 consists of the following:

Audit Area	Audit Stage
Industrial and Business Premises	Testing nearly completed
Contract Management	Testing nearly completed
Schools	Testing Underway (Site Visits)
Financial Governance (incorporating Payroll, Procure to Pay, Sales to Cash, and Record to Report)	Drafting the Audit Assignment
Capital Investment	Follow-Up and Pre-Planning

Internal Audit Consultancy and Other Work

- 3.7 Internal Audit staff have been involved in the following to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:

- 3.7.1 Offering advice on internal controls and governance to Managers on request through engagement in a number forums as the Council continues to transform its services. For example, Information Governance Group, and Business World ERP Project Board.
- 3.7.2 Reviewing outstanding and overdue audit recommendations to ensure their implementation by Management. Liaising with the Corporate Risk Officer on an on-going basis to ensure that risk is considered in every audit and risk reviews take account of improvements arising from audit work.
- 3.7.3 Providing intelligence via data sharing requests from Police Scotland. Liaising with the Corporate Fraud & Compliance Officer on an on-going basis to ensure fraud risk is considered in every audit.
- 3.7.4 Carrying out interim reviews of performance against goals and personal development plans for 2017/18 (PRDs) with each individual of the Audit and Risk team, to support delivery of the Audit and Risk Service's Strategies and Plans and to ensure their skills and knowledge are kept up-to-date in a changing environment.

Recommendations

- 3.8 Recommendations in reports are suggested changes to existing procedures or processes to improve the controls or to introduce controls where none exist. The grading of each recommendation reflects the risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

Priority 1: Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.
Priority 2: Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.
Priority 3: Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management.
Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

3.9 The table below summarises the number of Internal Audit recommendations made during 2017/18:

	2017/18 Number of Recs
Priority 1	0
Priority 2	0
Priority 3	1
Sub-total reported this period	1
Previously reported	15
Total	16
Recommendations agreed with action plan	16
Not agreed; risk accepted	0
Total	16

4 IMPLICATIONS

4.1 Financial

There are no costs attached to any of the recommendations in this report.

4.2 Risk and Mitigations

- (a) The Objectives of Internal Audit are set out in its Charter. "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Specifically as "a contribution to the Council's corporate management of risk, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives."
- (b) Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. During the development of the Internal Audit Annual Plan 2017/18, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.
- (c) If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate improvement in internal control and governance arrangements, and effective management of risks.

4.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

4.4 Acting Sustainably

There are no direct economic, social or environmental issues in this report.

4.5 Carbon Management

No direct carbon emissions impacts arise as a result of this report.

4.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

4.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

5 CONSULTATION

- 5.1 The Executive/Service Directors relevant to the Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.
- 5.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 5.3 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit and Risk Tel 01835 825036

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Scrutiny Committee 25 September 2017

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Contact us at Internal Audit intaudit@scotborders.gov.uk

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Implementation of the Community Empowerment Act</p> <p>No: 005/009</p> <p>Date issued: 6 November 2017</p>	<p>The purpose of this assurance audit was to assess the implications of the Community Empowerment Act (the Act) and the extent of the Council’s preparedness to comply with key elements of the legislation.</p> <p>The Act is intended to help to empower community bodies through:</p> <ul style="list-style-type: none"> the ownership of land and buildings, extending the community right to buy and making it simpler for communities to take over public sector land and buildings; and giving communities a greater say in the decisions that matter to them. <p>This report is intended to provide a position statement on progress in putting arrangements in place which allow the Council to comply with key elements of the legislation.</p> <p>For those parts of the Act which have come into force:</p> <ul style="list-style-type: none"> Arrangements are in place for Participation Requests, Asset Transfer Requests, and Schemes for Reduction and Remission of Non Domestic Rates; and The Act specifically requires the Community Planning Partnerships to consult the community and based on that consultation produce a Local Outcomes Improvement Plan (LOIP) and to produce Locality Plans for the five localities identified within the Scottish Borders; finalised versions of these plans to be published by 1st October 2017. These deadlines have not been met. A draft Community Plan (the LOIP) has been produced and consulted on. A final version is expected to be approved by the Community Planning Strategic Board at its meeting on 23 November 2017. Work will not commence on the Locality Plans until after the November 2017 Council meeting where a decision will be taken on the associated governance structure. 	0	0	0	Management have confirmed factual accuracy and accepted the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Revenues (Council Tax)</p> <p>No: 084/011</p> <p>Date issued: 3 November 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to assess the application of the Council Tax increase in 2017/18 and the legislative changes to the 2017 Council tax multiplier affecting bands E – H; and to follow-up testing on completeness and accuracy of Council Tax income associated with the new 2016/17 approved policy on second homes, and key controls introduced including application of discretionary exemptions.</p> <p>The Scottish Government took a decision to increase the proportion of tax payable on Bands E-H. In addition the Council decided to increase Council Tax by 3%, which is the maximum allowed, and to remove the 10% discount currently awarded to properties that are second homes.</p> <p>The above changes to Council Tax that took effect from 1st April 2017 have been correctly applied. Time limited discretionary reliefs have been granted for legitimate reasons and for suitable periods of time.</p> <p>The collection rate is monitored and reported on a quarterly basis and where account payments are not received enforcement processes for debt recovery are promptly initiated as required.</p> <p>Internal Audit considers that the level of assurance we are able to give is substantial. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for minor improvement to efficiency and effectiveness.</p> <p>We made the following recommendation:</p> <ul style="list-style-type: none"> • Management should re-evaluate the introduction of periodic reviews of claims for Single Occupancy Discount. (P3) 	0	0	1	Management have confirmed factual accuracy and accepted the report findings, and agreed to implement the recommendation within reasonable timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Registration Service</p> <p>No: 092/003</p> <p>Date issued: 3 November 2017</p> <p>Level of Assurance: Comprehensive</p>	<p>This review was not included within our Internal Audit Annual Plan 2017/18 and has been requested by the Service Area Management to assist in a change in overall management responsibility for the Registration Service.</p> <p>The Registration Service provides administration and management for the registration of births and deaths and applications to marry or register a civil partnership.</p> <p>The purpose of this assurance audit was to assess compliance with the relevant legislation and the adequacy of controls in place for registration fees and charges income, and Registrar's lump sums. This review was designed to provide assurance over areas selected by Service Management and to assist with improvement where required.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • Fees and charges are made in accordance with published price lists. • The approach to income collection is prudent requiring payment at or, in the case of marriages, before any services are performed. • Claims for ceremony expenses are appropriately authorised. Each individual entry in a claim is referenced to the entry number in the register of marriages making the review of any claim straightforward to achieve. <p>Internal Audit considers that the level of assurance we are able to give is comprehensive. Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives.</p> <p>We made no recommendations.</p>	0	0	0	Management have confirmed factual accuracy and accepted the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Legislative and Compliance</p> <p>Subject: EU Funded Programmes 2014-2020 LEADER and European Maritime & Fisheries Fund (EMFF)</p> <p>Nos: 154/016 & 154/017</p> <p>Date issued: 6 November 2017</p> <p>Level of Assurance: Substantial compliance with SLA (LEADER) and Framework Agreement (EMFF)</p>	<p>The purpose of the LEADER review was to assess compliance with the requirements of the new Service Level Agreement (SLA) and relevant EC Regulations for the LEADER Programme 2014-2020. The new SLA requires that Internal Audit annually assess compliance by SBC with the terms of the SLA, and report on it.</p> <p>The SLA is between Scottish Ministers (Managing Authority and Paying Agency) and Scottish Borders Council (acting as Accountable Body for the Local Action Group) as a delivery partner in the SRDP (Scottish Rural Development Programme) for 2014-2020, which runs until 31 December 2022.</p> <p>This is an area of high risk owing to the potential for disallowance (financial corrections) and significant fines levied by either the EU Auditors (as a result of their conformity audits) and / or Audit Scotland (in their capacity as certifiers of the EC accounts).</p> <p>The previous Internal Audit recommendation has been acted upon with risk registers updated and discussions progressed with the Scottish Government through the Accountable Bodies Group.</p> <p>Internal Audit tested one Project and two claims within that Project to evaluate compliance with the rules, regulations and guidance. The sample was chosen on the basis of value of claims proportionate to total Project payments to date.</p> <p>Internal Audit considers that the LEADER Programme is being managed well and our assurance opinion is that SBC substantially complies with the terms of the SLA. Largely satisfactory risk, control, and governance systems are in place. This opinion however only extends to the extent to which SBC complies with the terms of the SLA. It does not provide any assurance on the extent to which this compliance protects the Managing Authority or SBC (as Accountable Body) from the risk of disallowance following key or ancillary control failure findings of EU conformity or certification of accounts audits.</p>	0	0	0	<p>Management have confirmed factual accuracy and accepted the report findings.</p> <p>The Audit Assurance Report will be submitted to the Scottish Government by the 13 November 2017 timescale.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Subject: EU Funded Programmes 2014-2020 LEADER and European Maritime & Fisheries Fund (EMFF)</p> <p>(cont'd)</p>	<p>The European Maritime & Fisheries Fund is being delivered locally by the FORTH FLAG (Fisheries Local Action Group), an autonomous body which includes Fife, Tyne and Esk, and Scottish Borders, with SBC as lead partner and Secretariat responsible for efficient administration of FLAG business.</p> <p>A Framework Agreement exists between Marine Scotland (responsible for national delivery of the EMFF) and the FLAG which sets out roles and responsibilities. Marine Scotland retains financial responsibility for final verification and approval of projects, issuing award of funding letters, and administration and payment of claims.</p> <p>Animation and Administration costs relating to both programmes (EMFF and LEADER) are met through the 'lead fund', European Agricultural Fund for Rural Development (EAFRD). Our testing on claims includes those for this element of the EMFF. We undertook no Project testing for EMFF.</p> <p>Internal Audit considers that the EMFF Programme is being managed well and our assurance is that SBC substantially comply with the terms of the Framework Agreement. This is on the basis that we have received confirmation from Marine Scotland that they are the responsible party for monitoring of Project progress against key conditions and milestones and have responsibility for ensuring compliance with claims rules.</p> <p>We made no recommendations for LEADER or EMFF Programmes.</p>				

PROGRESS WITH IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

13 November 2017

1 PURPOSE AND SUMMARY

- 1.1 **The purpose of the report is to provide an update to Members of the Audit and Scrutiny Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports during 2017/18 and previous years.**
- 1.2 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 1.3 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 1.4 The Remit of the Audit and Scrutiny Committee includes the Audit function to consider "all matters relating to the implementation of recommendations contained within internal audit reports", as part of its high level oversight of the framework of internal control, risk management and governance within the Council.

2 RECOMMENDATIONS

- 2.1 **I recommend that the Audit and Scrutiny Committee:-**
 - (a) **Acknowledges the progress made by Management in implementing Internal Audit recommendations; and**
 - (b) **Considers whether it is satisfied with the progress or whether any further action is required.**

3 BACKGROUND

- 3.1 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 3.2 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 3.3 Management has the responsibility for ensuring that agreed audit actions are implemented to address the identified weaknesses and mitigate risks. At Internal Audit Final Report stage the Audit Recommendations are input to Pentana (previously Covalent), the Council's corporate performance management system. This is designed to assist with Management tracking of implementation, to link with relevant risks and to evidence improvement.
- 3.4 The Remit of the Audit and Scrutiny Committee includes the Audit function to consider "all matters relating to the implementation of recommendations contained within internal audit reports", as part of its high level oversight of the framework of internal control, risk management and governance within the Council. A summary of the status of recommendations was presented within the Internal Audit Annual Report 2016/17 presented to the Audit and Risk Committee on 28 March 2017.
- 3.5 Internal Audit continues to perform its standard quarterly follow-up activity to check that recommendations have been implemented and to ensure that the new controls had the desired effect on improving internal control and governance, and reducing risk. Internal Audit works with Management to address any actions that become overdue, and bring any matters to the attention of the Audit and Scrutiny Committee. There were occasions when recommendations were superseded and therefore no longer relevant when alternative solutions were required to manage the identified risks, or it was necessary to grant extra time to complete recommendations.
- 3.6 The following table highlights the current status (as at 5 November 2017) with regards to Internal Audit recommendations arising from current and previous years:

Year identified	Total	Implemented	Not Yet Due	Overdue
2017/18 (to Sept)	15	0	15	0
2016/17	10	8	2	0
2015/16	21	20	1	0
2014/15	34	30	2	2

Further details on those Internal Audit recommendations that are not yet fully implemented by Management (either Not Yet Due or Overdue) are shown in Appendix 1.

4 IMPLICATIONS

4.1 Financial

It is anticipated that efficiencies will arise either as a direct or indirect result of Management implementing the recommendations made by Internal Audit through improved internal controls and governance arrangements.

4.2 Risk and Mitigations

- (a) Internal Audit provides assurance to Management and the Audit and Scrutiny Committee on the adequacy and effectiveness of internal controls and governance within the Council, including risk management, highlights good practice and makes recommendations.
- (b) It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made during the year or outstanding from previous years which will enable Management to demonstrate further improvement in internal controls and governance arrangements.

4.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

4.4 Acting Sustainably

There are no direct economic, social or environmental issues in this report.

4.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

4.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

4.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

5 CONSULTATION

- 5.1 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 5.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

Approved by

Jill Stacey
Chief Officer Audit & Risk

Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel: 01835 825036

Background Papers: Appropriate Internal Audit files, and Pentana system





























Previous Minute Reference: Audit and Risk Committee 28 March 2017





























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Contact us at Internal Audit intaudit@scotborders.gov.uk

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APPENDIX 1

Code	Title	Priority	Status	Progress	Original Due Date	Due Date	Risk	Managed By	Assigned To
<u>203/007 Roads Management (Final Report Issued 16 September 2014)</u>									
AUDIT .001	(2014 IA 203-007 Rec 1) The Council's Road Asset Management Plan should be completed to include footways, structures and traffic signals. Road Data Management Plan Recommended Practices should be developed and approved.	3	 In Progress	<div style="width: 20%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 20%	31/03/15	31/03/18	 3	 Chief Officer Roads	 Infrastructure Manager
AUDIT .002	(2014 IA 203-007 Rec 2) Road Maintenance Manual should be developed to enable consistency in approach, methods and records. All relevant staff should have access to the manual and training in its application provided as necessary.	2	 Overdue	<div style="width: 50%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 50%	31/03/15	31/03/17	 2	 Chief Officer Roads	 Infrastructure Manager
AUDIT .003	(2014 IA 203-007 Rec 4) Management should receive regular performance information in respect of road safety inspection and related repairs.	2	 Overdue	<div style="width: 50%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 50%	31/03/15	31/03/17	 2	 Chief Officer Roads	 Infrastructure Manager
<u>214/005 Flood Risk and Coastal Management (Final Report Issued 10 December 2014)</u>									
AUDIT .004	(2014 IA 214-005) Rec 5.1. The Authority should develop its own Shoreline Management Plan which covers the whole of the Berwickshire Coast.	3	 In Progress	<div style="width: 15%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 15%	31/03/17	31/12/17	 1	 Infrastructure Manager	 Asset Manager
<u>205/010 Waste and Recycling Services Trade Waste (Final Report Issued 11 January 2016)</u>									
AUDIT .009	(2015 IA 205-010 Rec 1) A review of the Trade Waste Management and Administration database system should be carried out to ensure that it is robust and fit for purpose to assist with future service delivery.	3	 In Progress	<div style="width: 40%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 40%	31/12/17	31/03/18	 1	 Waste Manager	 Waste Strategy Manager
<u>238/001 ICT Change Programme (Final Report Issued 16 September 2016)</u>									
AUDIT .013	(2016 IA 238-001 Rec 4.1) Establish a formal Corporate Support Services Forum to provide expert advice for client relationship management and the CGI contract and to support SBC IT in its contract monitoring responsibilities.	3	 In Progress	<div style="width: 50%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 50%	30/06/17	31/03/18	 1	 Chief Financial Officer	 Interim Head of IT
AUDIT .014	(2016 IA 238-001 Rec 4.2) SBC IT review the contract with CGI and devise a Compliance Plan within the Contract Management Framework in which they identify exactly what contract monitoring and management will be done against each element.	3	 In Progress	<div style="width: 75%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 75%	30/06/17	31/03/18	 4	 Chief Financial Officer	 Interim Head of IT

Code	Title	Priority	Status	Progress	Original Due Date	Due Date	Risk	Managed By	Assigned To
023/001 Corporate and Social Work Complaints (Final Report Issued 19 June 2017)									
AUDIT .018	(2017 IA 023-001 Rec 5.1) Training arrangements for staff new to complaints handling and for highlighting changes to procedure to existing staff should be revised to ensure coordinated and consistent delivery.	2	 In Progress	<div style="width: 15%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 15%	30/09/17	31/03/18	 1	 Customer Advice and Support Manager	 Customer Services Development Officer
AUDIT .019	(2017 IA 023-001 Rec 5.2) Processes for validating service quality control which is proportionate to the relatively low number of complaints should be put in place.	2	 In Progress	<div style="width: 0%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 0%	30/09/17	31/03/18	 1	 Customer Advice and Support Manager	 Customer Services Development Officer
AUDIT .020	(2017 IA 023-001 Rec 5.3) Reporting of complaints should be expanded to include analysis of the root cause of complaints and the service areas involved. Routine reporting for managers should be developed in order to manage ongoing complaints.	2	 In Progress	<div style="width: 15%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 15%	30/09/17	31/03/18	 1	 Customer Advice and Support Manager	 Customer Services Development Officer
AUDIT .021	(2017 IA 023-001 Rec 5.4) Lessons learned from upheld complaints should be consistently & logically recorded in CRM together with action taken to provide increased opportunities for learning from complaints and avoid similar complaints in the future.	2	 In Progress	<div style="width: 15%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 15%	30/09/17	31/03/18	 1	 Customer Advice and Support Manager	 Customer Services Development Officer
010/014 Corporate Transformation Programme (Final Report Issued 20 June 2017)									
AUDIT .022	(2017 IA 010-014 Rec 5.1) Corporate Transformation Monitoring Reports (including Annual Report) should include cumulative investment and savings, covering several years, for individual programmes and projects, to enable benefits realisation monitoring and to provide Return on Investment (ROI) info.	3	 In Progress	<div style="width: 0%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 0%	31/12/17	31/12/17	 1	 Executive Director	 Programme Managers
AUDIT .023	(2017 IA 010-014 Rec 5.2) Management should ensure that Corporate Transformation business cases identify the benefits to be realised (both financial and non-financial) including initial and ongoing investment and savings forecast	3	 In Progress	<div style="width: 0%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 0%	31/12/17	31/12/17	 1	 Executive Director	 Programme Managers
AUDIT .024	(2017 IA 010-014 Rec 5.3) Management should set minimum standards for key documentation requirements to ensure info provided across all programmes and projects is consistent and risks are consistently identified and managed throughout the CT Programme	3	 In Progress	<div style="width: 0%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 0%	31/12/17	31/12/17	 1	 Executive Director	 Programme Managers

Code	Title	Priority	Status	Progress	Original Due Date	Due Date	Risk	Managed By	Assigned To
165/001 Children & Young People School Excursions (Final Report Issued 6 September 2017)									
AUDIT .032	(2017 IA 165-001 Rec 5.1) Material Policy updates and relevant appendices should be approved, utilising the delegated powers of the Service Director C&YP 'Authorise and approve educational excursions' and appended to procedures to enable access by Schools	3	In Progress	<div style="width: 33%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 33%	30/06/18	30/06/18	1	Chief Officer Education	Policy & Performance Officer E&LL
AUDIT .033	(2017 IA 165-001 Rec 5.2) Reaffirm the importance of compliance with policy and procedures including authorisations, post excursion reporting, accident reporting, monitoring of compliance, and assurance reporting to Mgt.	3	In Progress	<div style="width: 0%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 0%	30/06/18	30/06/18	1	Chief Officer Education	Policy & Performance Officer E&LL
AUDIT .034	(2017 IA 165-001 Rec 5.3) Clear guidance on the Disclosure requirements for non-supervisory, non-staff adults accompanying an excursion should be clarified with the support of HR and Legal services.	2	In Progress	<div style="width: 0%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 0%	30/06/18	30/06/18	1	Chief Officer Education	Policy & Performance Officer E&LL
AUDIT .035	(2017 IA 165-001 Rec 5.4) Consideration should be given to the use of 'Evolve' software to facilitate better standardisation and centralisation of processes and provide valuable Management Information to support monitoring and assurance reporting.	3	In Progress	<div style="width: 0%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 0%	30/06/18	30/06/18	1	Chief Officer Education	Policy & Performance Officer E&LL
204/004 Fleet Management (Final Report Issued 15 September 2017)									
AUDIT .036	(2017 IA 204-004 Rec 5.1) The proposal that replacement of fleet assets is based on a business case should be developed further and refined by Finance. Fleet Management and Service Managers should be involved in developing revised processes.	2	In Progress	<div style="width: 25%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 25%	15/12/17	15/12/17	1	Chief Officer Roads	Finance Business Partners
AUDIT .037	(2017 IA 204-004 Rec 5.2) Fleet Management and Service Managers should start the procurement process earlier in each financial year. Whole of Life costs should be used in the evaluation of competition responses.	2	In Progress	<div style="width: 25%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 25%	15/12/17	15/12/17	1	Chief Officer Roads	Fleet Manager and Procurement & Payments Manager
AUDIT .038	(2017 IA 204-004 Rec 5.3) Actions to address the issues identified in Fleet Management workforce plan should be progressed to assist with key person dependency, management capacity, recruitment and retention, and succession planning.	2	In Progress	<div style="width: 25%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 25%	31/03/18	31/03/18	3	Chief Officer Roads	Fleet Manager and HR Business Partner
AUDIT .039	(2017 IA 204-004 Rec 5.4) For repairs above an agreed value Service Users should receive a full cost breakdown from Fleet Management which includes a reasonable estimate of what the cost would have been had the repair been undertaken by the main dealer.	3	In Progress	<div style="width: 0%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 0%	31/03/18	31/03/18		Chief Officer Roads	Fleet Manager

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INTERNAL AUDIT MID-TERM PERFORMANCE REPORT 2017/18

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

13 November 2017

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to inform the Audit and Scrutiny Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2017, towards completing the Internal Audit Annual Plan 2017/18. It also summarises the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.**
- 1.2 The Objectives of Internal Audit are set out in its Charter: “As part of Scottish Borders Council’s system of corporate governance, Internal Audit’s purpose is to support the Council in its activities designed to achieve its declared objectives.” Internal Audit provides assurance to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council.
- 1.3 The Internal Audit Annual Plan 2017/18 that was approved by the Audit and Risk Committee on 28 March 2017 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Officer, as the Council’s Chief Audit Executive (CAE), to provide the annual Internal Audit opinion regarding the adequacy and effectiveness of internal control within the Council. Internal Audit assurance services and annual opinions are also provided to the Board of SB Cares, the Scottish Borders Pension Fund Board and Committee, and the Scottish Borders Health and Social Care Integration Joint Board to meet their obligations.
- 1.4 The Appendix 1 to this report provides details of the half-yearly progress by Internal Audit with the delivery of its programme of work. Internal Audit has made good progress in the first half of the year, despite the temporary reduction in staffing levels during that period, and is currently on target to complete its Annual Plan 2017/18.
- 1.5 The report also summarises the statutory obligations for Internal Audit and the requirements of the Public Sector Internal Audit Standards (PSIAS) with which the SBC Internal Audit function conforms.

2 RECOMMENDATION

- 2.1 I recommend that the Audit and Scrutiny Committee approves the progress Internal Audit has made towards completing the Internal Audit Annual Plan 2017/18, and confirms that it is satisfied with the Performance of the Internal Audit service.**

3 BACKGROUND

- 3.1 The Objectives of Internal Audit are set out in its Charter: "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:
- As a contribution to the Council's corporate management of risk.
 - As an aid to ensuring that the Council and its Members, managers and officers are operating within the law and relevant regulations.
 - In support of the Council's vision, values and priorities.
 - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
 - As a contribution towards ensuring that financial statements and other published information are accurate and reliable."
- 3.2 Internal Audit provides assurance to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council.
- 3.3 The Internal Audit Annual Plan 2017/18 that was approved by the Audit and Risk Committee on 28 March 2017 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Officer, as the Council's Chief Audit Executive (CAE), to provide the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.
- 3.4 Internal Audit assurance services are also provided during the year to the Council's adult social care ALEO (SB Cares), the Scottish Borders Pension Fund, and the Scottish Borders Health and Social Care Integration Joint Board, and annual opinions are provided to their respective Management and Boards to meet their obligations.

4 HALF YEAR RESULTS AGAINST INTERNAL AUDIT PLAN 2017/18

- 4.1 The Internal Audit programme of work takes account of the availability of auditor resources (noting the ongoing secondments of two of the Senior Internal Auditors, one of which is backfilled through contract for services), in consultation with Management to reflect the timing of some of Council's strategic development programmes. The following table summarises the Internal Audit activity for the 6 months to 30 September 2017:

	Plan days Apr-Sep 2017/18	Actual days Apr-Sep 2017/18	Plan Report Nos. Apr-Sep 2017/18	Actual Report Nos. Apr-Sep 2017/18
Corporate Governance	75	67	4	4
Financial Governance	65	45	3	2
IT Governance	10	10	1	1
Internal Controls	20	36	2	2
Asset Management	35	28	2	1
Legislative and other Compliance	35	24	3	3
Consultancy and Advice	35	31		
Other	26	40		
Non Council	30	41		
Total	331	322	15	13

- 4.2 The work Internal Audit has carried out in the first half of the year equates to Productive Days Achieved as a percentage of Productive Days as per the Audit Plan of 97% (CIPFA Directors of Finance PI for Internal Audit services) and 87% completion of planned audit reports.
- 4.3 The allocation of audit plan days is not an exact science and some of the audit work has been carried out using less than planned days and some using more than planned days in the 6 months to 30 September 2017. Two of the audit reports have not been delivered as planned. The most significant variations are as follows:
- Financial Governance: Contract Management work delayed slightly to reflect input to Audit Scotland national review of ALEOs – Report scheduled 3rd Quarter; Revenues (Council Tax) scope of the audit that was agreed with Management focussed on areas of concern to deliver the audit more efficiently. (Under)
 - Internal Controls: Schools pre-planning and research has been accelerated to ensure productivity levels are retained as part of effective use of Internal Audit resources; Registration Service assurance work additional to the approved Audit Plan on request by Service Management. (Over)
 - Asset Management: Industrial and Business Premises work delayed slightly to reflect re-profiling of other audit work – Report scheduled 3rd Quarter. (Under)
- 4.4 The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with the delivery of its programme of work to deliver the approved Internal Audit Annual Plan 2017/18 (those audits which are complete are highlighted in dark shading, those underway to reflect their continuous audit approach are highlighted in light shading, and those scheduled for the second half of the year are not shaded).
- 4.6 The continuous audit approach enables Internal Auditors to provide added value advice on internal controls and governance as the Council continues to transform its service delivery, for example, the Digital Transformation Programme including ICT Contract with CGI and Business World ERP Project, the Information Governance Group and Information Management Team, and the Corporate Fraud Improvement Plan. The continuous audit approach is applied to non-SBC internal audit work for the Health and Social Care Integration Joint Board and SB Cares.

5 COMPLETING THE PLAN FOR 2017/18

- 5.1 With the expected return from secondment of one Senior Internal Auditor and recruitment underway to fill one vacancy Internal Auditor, during most of the second half of 2017/18 the Internal Audit staff resources will return to budgeted establishment comprising the Chief Officer Audit & Risk (50% allocation to Audit), three Senior Internal Auditors, and two Internal Auditors. Internal Audit team members will continue to work in a collaborative way with the Corporate Risk Officer and the Corporate Fraud and Compliance Officer within the Audit and Risk service to provide assurance and compliance services.
- 5.2 The Internal Audit programme of work for the six months from October 2017 to March 2018 to complete the delayed work and incorporate the remaining planned audit work, based on staffing levels within this period, presently indicates the Internal Audit Annual Plan 2017/18 can be delivered in full. There is no change proposed to the audit plan that would require approval by the Audit and Scrutiny Committee.

- 5.3 The following table summarises the Internal Audit planned work in the second half of the year to 31 March 2018:

	Plan days Oct-Mar 2017/18	Plan Report Nos. Oct-Mar 2017/18
Corporate Governance	65	2
Financial Governance	100	5
IT Governance	40	2
Internal Controls	40	2
Asset Management	30	2
Legislative and other Compliance	10	1
Consultancy and Advice	35	
Other	26	
Non Council	35	3
Total	381	17

- 5.4 The Internal Audit work completed and work in progress will continue to be reported to the Corporate Management Team and to the Audit and Scrutiny Committee. This report will include an Executive Summary of the audit objective, findings, good practice, recommendations (where appropriate) and audit opinion of assurance for each Final Internal Audit Report issued to relevant Service Management.
- 5.5 Internal Audit's compliance with its Strategy and delivery of its risk-based Annual Plan will continue to be communicated to the Corporate Management Team and the Audit and Scrutiny Committee within the Internal Audit Annual Report which will also provide an opinion on the levels of assurance based on audit findings over the year.

6 THE LOCAL AUTHORITY ACCOUNTS (SCOTLAND) REGULATIONS 2014

- 6.1 The Local Authority Accounts (Scotland) Regulations 2014 which came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector (PSIAS)*. The standards require internal audit to have suitable operational independence from the authority.
- 6.2 The regulations require a local authority to assess the efficiency and effectiveness of internal auditing activity from time to time in accordance with recognised internal auditing standards and practices i.e. PSIAS.

7 PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) AND QUALITY ASSURANCE & IMPROVEMENT PLAN (QAIP)

- 7.1 The SBC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective April 2013 (updated April 2017) which includes:
- Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards (responsibility, independence, proficiency, quality);
 - Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).

- 7.2 The PSIAS requires the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to carry out an annual internal self-assessment against the PSIAS, develop a quality assurance and improvement plan (QAIP) based on the outcome, and report the results of the QAIP to senior management and elected members.
- 7.3 The PSIAS also requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. This EQA was carried out by Renfrewshire Council in October 2015 and the results reported to the Audit and Risk Committee.
- 7.4 An annual internal self-assessment against the PSIAS of the Internal Audit function will be completed prior to the end of 2017/18. The progress with implementation of the one remaining improvement action in the QAIP arising from the EQA (target date March 2018) will be evaluated at that time. The results will continue to be reported to Corporate Management and the Audit and Scrutiny Committee within the Internal Audit Annual Report. This will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.

8 IMPLICATIONS

8.1 Financial

- (a) There are staff and other resources either in place or scheduled to be available to achieve the Internal Audit Annual Plan 2017/18 and to meet the key objective of delivering an effective Internal Audit function to provide independent and objective assurance on systems of internal financial control, internal control and governance, and to highlight good practice and recommend improvements.
- (b) Budget monitoring of the Audit & Risk service (Internal Audit, Risk Management and Counter Fraud) is carried out by the Chief Officer Audit & Risk on a monthly basis (and discussed on a quarterly basis with Finance staff in accordance with current practice) to address any budgetary pressures and to manage service delivery within available financial resources.

8.2 Risk and Mitigations

- (a) The Objectives of Internal Audit are set out in its Charter. "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Internal Audit provides assurance to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council. Specifically, as "a contribution to the Council's corporate management of risk", this includes responsibility in "Assisting management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives."
- (b) Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. During the development of the Internal Audit Annual Plan 2017/18, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.

- (c) If planned Internal Audit staffing levels fall below that assumed for the remaining six-month period or if there is an unexpected and unplanned level of contingency audit work, there is the risk that the annual plan will not be achieved. That in turn increases the risk of reduced assurance available to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council. This has been mitigated by way of workforce planning, scheduling of audit programme of work, regularly monitoring progress, and taking action as necessary.

8.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

8.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report.

8.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

8.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

8.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or the Scheme of Delegation are required as a result of this report.

9 CONSULTATION

- 9.1 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 9.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

Approved by

Jill Stacey, Chief Officer Audit & Risk Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel. 01835 825036

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Risk Committee 28 March 2017

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Contact us at Internal Audit intaudit@scotborders.gov.uk

APPENDIX 1

AUDIT	2017/18	COMMENTARY	STATUS
Corporate Governance			
Local Code of Corporate Governance / Corporate Governance - annual evaluation and statement 2017/18	40	Ensure SBC's Local Code of Corporate Governance complies with the CIPFA / SOLACE Revised Framework (2016). Continuous audit approach on compliance with the Local Code of Corporate Governance and progress on improvement action plans. Annual evaluation against Local Code of Corporate Governance covering the corporate whole and individual Service Directorates. In connection with local elections involvement in the review of the Scheme of Delegation and Scheme of Administration, and associated Code of Conduct for Members and Members Induction Training.	Revising the Council's Local Code of Corporate Governance to ensure it complies with the CIPFA / SOLACE Revised Framework (2016) completed in 1st Quarter and Revised Local Code approved by Council 24 August 2017; Follow-up ongoing; Annual evaluation scheduled 4th Qtr.
Information Governance	25	Continual Audit approach performing 'critical friend' role through the review of the Information Governance framework including roles and responsibilities, policy development and implementation, and assess progress with implementation of improvement actions. Assess preparedness for General Data Protection Regulations (GDPR) coming into force May 2018.	Ongoing as part of assurance role on the Information Governance Group and the Information Management Team. Assurance Report 4th Qtr.
Performance Management	30	Provide independent validation of performance indicators and benchmarking to support self-assessment and continuous improvement of Council's services, specifically to ensure accuracy of data submitted for Local Government Benchmarking Framework and Corporate Priorities Pls.	Final Report on Local Government Benchmarking Framework (LGBF) issued 15 September 2017; Corporate Priorities audit work scheduled 4th Qtr.
Corporate Transformation	30	Continual Audit approach performing 'critical friend' role plan through input to the planned review and possible refresh of the Corporate Transformation Programme to influence the governance and accountability arrangements, including processes for benefit (financial and other) identification, tracking and realisation (return on investment and value for money), and evaluation of outcomes and lessons learned.	Final report issued 20 June 2017
Complaints	10	Review and assess arrangements in place for both Corporate and Social Work complaints to provide assurance on whether the complaints process is being applied consistently to enable successful outcomes and realisation of the benefits associated with efficient resolution of complaints.	Final report issued 19 June 2017
Community Engagement	5	Evaluate systems and procedures in place to assist the Council deliver an effective, consistent and integrated approach to engage with and communicate to the community in setting, delivering and reporting on its vision, priorities and plans. Assess Community Empowerment Act implications and extent to which the Council is complying with key elements of the legislation.	Implementation of Community Empowerment Act Final Report issued on 6 November 2017.
	140		

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AUDIT	2017/18	COMMENTARY	STATUS
Financial Governance			
Financial Policy Framework	15	Continual Audit approach to assess the Financial Policy Framework established as part of Business World implementation, review progress with update of Financial Regulations and associated policies, procedures and guidelines, and evaluate whether there is a comprehensive programme in place to review, update and develop relevant policies, procedures and guidelines.	Follow-up on areas of improvement as part of assurance roles on the Business World ERP Project Board and other groups; Chief Officer Audit & Risk meets regularly with Chief Financial Officer. Specific review of Petty Cash including Emergency arrangements - Report 3rd Qtr.

Payroll	20	Business World assurance work on Payroll processes; compliance testing of controls at Service level.	Involvement in the independent validation of Payroll data migrated; Substantive testing scheduled 3rd Qtr.
Sales to Cash	20	Business World assurance work on Sales to Cash processes. Review of income management controls in place throughout the Council to set fees and charges for services, raise invoices promptly, and collect debts efficiently resulting in debtors' balances that are complete, accurate and recoverable.	Involvement in the independent validation of Finance data migrated; Substantive testing scheduled 3rd Qtr.
Procurement to Payment	20	Business World assurance work on Procure to Pay. Review of purchase to payment processes at Service level including authorisation to test compliance.	Involvement in the independent validation of Procurement data migrated; Substantive testing scheduled 3rd Qtr.
Record to Report	20	Assurance work on Record to Report processes to determine if expected improved internal financial controls via the business World ERP system are being achieved. Key controls work relating to core General Ledger and Management Reporting.	Involvement in the independent validation of Finance data migrated; Substantive testing scheduled 4th Qtr.
Contract Management	20	Assess governance and internal controls in place over contract monitoring arrangements with third parties including integrated sports and culture trust (Live Borders) and ALEO (SB Cares).	Assurance work underway though slight delay compared to schedule in programme of work - Report 3rd Qtr. Input to Audit Scotland national review of ALEOs.
Revenues (Council Tax)	30	Assess the application of the Council Tax increase in 2017/18 and the legislative changes to the 2017 Council tax multiplier affecting bands E - H. Follow-up testing on completeness and accuracy of Council Tax income associated with the new 2016/17 approved policy on second homes, and key controls introduced including application of discretionary exemptions.	Final Report issued 3 November 2017.
Grants incorporating Following the Public Pound	20	Review of authorisation and monitoring procedures including criteria to evaluate grant applications and monitoring compliance with conditions of grant. Assess process against Following the Public Pound code of practice in support of securing best value.	Scheduled 4th Qtr
	165		

AUDIT	2017/18	COMMENTARY	STATUS
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ICT Governance

ICT Contract Management	20	Review of client relationship and contract management with CGI contract to assess compliance with Service Delivery and terms and conditions.	Follow-up ongoing; Assurance work scheduled 4th Qtr
ICT Security	20	Assess the adequacy of the security arrangements including: physical and environmental; disaster recovery; third party access; and operational controls.	Scheduled 3rd Qtr
Public Secure Network (PSN) Compliance	10	Examine the Council's compliance with the requirements of the Public Secure Network (PSN) and progress with implementation of actions required to achieve full compliance. Assess fulfilment of roles and responsibilities within the Council and CGI under contract.	Final Report issued 15 September 2017.
	50		

AUDIT	2017/18	COMMENTARY	STATUS
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Internal Controls

Schools	30	Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the school establishments including evaluation of the systems in place to set and monitor budgets devolved to head teachers to ensure adherence to DSM standards and practices.	Scheduled 3rd Qtr; sample of schools selected for visits are Peebles, Berwickshire and Selkirk High Schools and Morebattle, Duns and St Boswells Primary Schools.
Community Safety	10	Evaluate the partnership working within Community Safety to ensure responsibilities and accountabilities of partners are clearly defined and to ensure funds are used effectively and economically for the intended purpose to meet local priorities.	Scheduled 3rd Qtr.
Children and Young People Services	20	Continual audit approach and 'critical friend' role to provide independent challenge of the evidence to support self evaluation and improvement arising from the inspection programme. Specific review to assess what controls and processes are in place to ensure safety of children and young people on excursions.	Ongoing 'critical friend' role under development. Specific Review: Schools Excursions Final Report issued 06 September 2017.
Registration Service		Assess compliance with the relevant legislation and adequate controls are in place for registration fees and charges income.	Additional to approved Audit Plan on request by Service Management; Final Report issued 3 November 2017.
	60		

AUDIT	2017/18	COMMENTARY	STATUS
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Asset Management

Asset Registers	20	Review of processes and controls Management have implemented to ensure complete and accurate records of all Property, Fleet, and IT assets that underpin Asset Management Plans to deliver Council's strategies, plans and priorities. Review of stock management controls relating to inventory turnover, and prevention and detection of fraud.	Scheduled 3rd Qtr.
Capital Investment	10	Assess progress with implementation of identified improvement actions to ensure compliance with good practice by Accounts Commission - strategic asset management plans; capital planning; review, scrutiny and challenge; capital budget monitoring; delivery of capital programme and projects.	Scheduled 3rd Qtr.

Industrial and Business Premises	20	Assess the corporate governance and financial governance arrangements linked to priorities within the Economic Strategy relating to premises and associated estate management including: strategy; development and implementation of infrastructure; demand analysis; estate management end to end processes from lease agreements, voids, and income management.	Assurance work underway though slight delay compared to schedule in programme of work - Report 3rd Qtr.
Fleet Management	15	Evaluate controls in place to ensure fleet asset records are complete and accurate and fleet replacement decisions represent value for money. Review procurement practices for compliance and consider options for volume / value invoice processing. Consider repair and maintenance processes and supporting evidence associated with insurance claims.	Final Report issued 15 September 2017.
	65		

AUDIT	2017/18	COMMENTARY	STATUS
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Legislative & Other

Selkirk Conservation Area Regeneration Scheme (CARS)	10	Review as part of programme compliance and evaluation requirements of the external funders including audit requirements.	Scheduled 3rd Qtr
LEADER	15	Annual audit of EU grant-funded LEADER programme required by the Service Level Agreement between Scottish Ministers (Managing Authority and the Paying Agency) and SBC (Lead Partner for Scottish Borders Local Action Group (LAG)) to assess compliance by SBC with the terms of the SLA.	EU Funded Programmes 2014-2020 LEADER and EMFF Final Report issued 6 November 2017. Audit Assurance Report will be issued to Scottish Government by 13 November 2017 to comply with Audit terms in SLA.
European Maritime Fisheries Fund (EMFF)	15	Annual audit of EU grant-funded EMFF programme under the terms of the SLA and legislative compliance including an assessment of compliance with the requirements of the SLA and the relevant EC Regulations.	
Carbon Reduction	5	Annual audit as part of the requirement under the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) prior to the Council's annual submission to Department of Energy and Climate Change (DECC).	Final Report issued 18 September 2017.
	45		

AUDIT	2017/18	COMMENTARY	STATUS
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Consultancy

Advice	20	Provision of ad-hoc Internal Audit advice and assistance on internal controls, risk management and governance in response to requests.	Ongoing
Corporate Transformation Project Boards / Teams (for example): -Digital Transformation Programme (including Benefits Realisation); -Business Intelligence; -Other Project Boards / Teams (for example): - Serious Organised Crime; - Welfare Reform	50	Provision of Internal Audit consultancy activities to support Management in delivering innovation and transformational change and continue to add value to the Council by influencing and offering ways to enhance the governance and internal control environment. In its 'critical friend' role provide: internal challenge as part of strategic and service reviews; quality assurance on a sample of projects involving major change and systems development; and an independent and objective assessment of the evidence to support self-evaluation and improvement.	Ongoing - during first 6 months the Internal Audit function, in adopting its 'critical friend' role, continues to collaborate with the Corporate Performance team to perform independent and objective validation of Services' performance measures and self-assessments within a programme to ensure robust evidence of performance and improvement that demonstrates best value.
	70		

AUDIT	2017/18	COMMENTARY	STATUS
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Other

Contingency	10	Carry out investigations and other reactive work to ensure high risk issues and concerns identified by Management during the year are appropriately addressed.	On request and in agreement by Chief Officer Audit & Risk.
Follow-Up	22	Carry out Follow-Up activity to monitor progress with implementation of Audit recommendations and ensure that Management Actions have been timeously and effectively implemented, to check that these have had the desired effect to manage identified risks, and to demonstrate continuous improvement in internal control and governance.	Ongoing
Counter Fraud	20	Provide intelligence via data sharing requests from Police Scotland, and submission of data sets and case management of data matches arising from National Fraud Initiative (NFI) exercise in liaison with the Corporate Fraud and Compliance Officer as part of the wider assurance framework on counter fraud and crime controls.	Ongoing
	52		

SBC Total	647
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AUDIT	2017/18	COMMENTARY	STATUS
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Non SBC

SB Cares	25	Audit Plan to be determined and agreed with SB Cares Board and Management for review of the adequacy of the arrangements for risk management, governance and control of SB Cares. Annual audit assurance opinion to be reported to SB Cares Management and Board.	SB Cares Internal Audit Annual Plan 2017/18 approved by SB Cares Board on 26 May 2017 following consultation with SB Cares Management Team.
Scottish Borders Pension Fund	5	Reliance on work over the SBC systems and controls in place which covers the same systems for the Pension Fund for assessment of the governance of Pension Fund. Annual audit assurance opinion to be reported to Pension Fund Committee and Board.	Attendance at Pension Fund Committee and Board; Assurance audit work and input to Annual Governance Statement scheduled in 4th Quarter.

Scottish Borders Health and Social Care Integration Joint Board	35	Audit Plan to be determined and agreed by the Scottish Borders Health and Social Care Integration Joint Board (IJB) for review of the adequacy of the arrangements for risk management, governance and control of the delegated resources. Annual audit assurance opinion to be reported to IJB Chief Officer and Chief Financial Officer, Audit Committee and Board.	Scottish Borders Health and Social Care Integration Joint Board (IJB) Internal Audit Annual Plan 2017/18 approved by IJB Audit Committee on 27 March 2017. In respect of joint services, assurances will be sought as appropriate from partner internal audit service providers (e.g. NHS Borders - PwC; SBC - SBC IA).
	65		
Overall Total	712		

TREASURY MANAGEMENT MID-YEAR REPORT 2017/18

Report by Chief Financial Officer

AUDIT AND SCRUTINY COMMITTEE

13 November 2017

1 PURPOSE AND SUMMARY

- 1.1 **This report presents the mid-year report of treasury management activities for 2017/18, in line with the requirements of the CIPFA Code of Practice, including Prudential and Treasury Management Indicators, and seeks comments from Audit and Scrutiny Committee prior to consideration of the report by Council.**
- 1.2 The report is required as part of the Council's treasury management control regime. It provides a mid-year report on the Council's treasury activity during the six month period to 30 September 2017 and demonstrates that Treasury activity in the first six months of 2017/18 has been undertaken in full compliance with the approved Treasury Strategy and Policy for the year.
- 1.3 Appendix 1 contains an analysis of the performance against the targets set in relation to Prudential and Treasury Management Indicators, and proposes revised estimates of these indicators in light of the 20106/17 out-turn and experience in 2017/18 to date for Council approval.

2 STATUS

- 2.1 This report is being presented prior to the September Financial Monitoring being approved by the Executive Committee, currently scheduled for 21 November 2017. Any changes required as a result of this meeting will be reflected in the final version of this report being submitted to Council on 14 December 2017.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Audit and Scrutiny Committee:**
 - a) **Notes that treasury management activity in the six months to 30 September 2017 was carried out in compliance with the approved Treasury Management Strategy and Policy**
 - b) **Agrees to the presentation of the Treasury Management Mid-Year Report 2017/18, as contained in Appendix 1, to Council for approval of the revised indicators.**

4 BACKGROUND

- 4.1 The Council approved the Annual Treasury Management Strategy (the Strategy) for 2017/18 at the Council on 9 February 2017. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 4.2 As set out in the annual Treasury Strategy, the Audit and Scrutiny Committee has a role to scrutinise the Mid Year Report before submission to Council for final approval. An Informal Briefing Seminar on 'Borrowing and Treasury Management in Councils' on 25 September 2017 was designed to enhance Members' knowledge and understanding of treasury management strategy and related reports, borrowing and other financing decisions, affordability, sustainability, and performance benchmarking to enable the Committee to effectively fulfil this role.

5 TREASURY MANAGEMENT MID-YEAR REPORT 2017/18

- 5.1 The Treasury Management Mid-Year Report for 2017/18 (the Mid-Year Report) is contained in Appendix 1. All of the 2017/18 target indicators reported upon are based on the indicators agreed as part of the Strategy approved by Council on 9 February 2017.
- 5.2 The Mid-Year Report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
 - a) An economic update for the first six months of 2017/18
 - b) A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - c) The Council's capital expenditure (prudential indicators)
 - d) A review of the Council's investment portfolio for 2017/18
 - e) A review of the Council's borrowing strategy for 2017/18
 - f) A review of compliance with Treasury and Prudential Limits for 2017/18
- 5.3 The Mid-Year Report at Annex A contains revised Prudential and Treasury Management Indicators for consideration prior to Council approval. An additional indicator has been included for PI-3 to show the Ratio of Financing Costs to Net Revenue including the PPP financing and repayment costs.
- 5.4 The Mid-Year Report indicates that the Council's Treasury Management activities are being managed and monitored within the agreed boundaries and indicators approved by the Council.

6 IMPLICATIONS

6.1 Financial

There are no further financial implications relating to this report. The outcomes from the Council's treasury management activities are explained in detail within Appendix 1.

6.2 Risk and Mitigations

This report is an account of the outcomes delivered at the six month stage from the tightly risk controlled work that the Council's Treasury staff. The report is an important element of the overall risk management environment but has no specific risk implications of its own.

6.3 Equalities

It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

6.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

6.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

6.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

6.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

7 CONSULTATION

- 7.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council are currently being consulted and any comments received on the report will be reported at the Audit and Scrutiny Committee meeting.

Approved by

David Robertson
CHIEF FINANCIAL OFFICER

Signature

Author(s)

Name	Designation and Contact Number
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Background Papers:

Previous Minute Reference:

Scottish Borders Council, 9 February 2017

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SCOTTISH BORDERS COUNCIL

TREASURY MANAGEMENT MID-YEAR REPORT 2017/18

1. BACKGROUND

a) Treasury management is defined as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

b) The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing security and adequate liquidity, before considering optimising investment return.

c) The second main function of the treasury management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, where favourable conditions exist, any debt previously drawn may be restructured to meet Council risk or cost objectives.

d) **Annex A** contains a summary of the updated Prudential and Treasury Management Indicators for 2017/18 as highlighted throughout this report.

2 ECONOMIC POSITION

2.1 ECONOMIC UPDATE *(from Capita Asset Services)*

UK. After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC. This marginal revision can hardly justify why the MPC

became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

It therefore looks very likely that the MPC will increase Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

- b) **EU.** Economic growth in the EU, (the UK's biggest trading partner), has been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter 2 (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.
- c) **USA.** Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its \$4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.
- d) **Chinese economic growth** has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of

unsold property, and to address the level of non-performing loans in the banking and credit systems.

- e) **Japan** is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

2.2 ECONOMIC OUTLOOK

The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years including the timing of, and what final form Brexit will look like when agreed with the EU..

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and to get inflation up considerably to around monetary policy target levels.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. Funds Rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

2.3 INTEREST RATE FORECAST

- a) Table 1 summarises the latest interest rate forecast from the Council's treasury adviser, Capita Asset Services.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

Source: Capita Asset Services – October 2017.

- b) Capita Asset Services undertook its last review of interest rate forecasts on 9 August after the quarterly Bank of England Inflation Report. There was no change in MPC policy at that meeting. However, the MPC meeting of 14 September revealed a sharp change in sentiment whereby a majority of MPC members said they would be voting for an increase in Bank Rate “over the coming months”. It is therefore possible that there will be an increase to 0.5% at the November MPC meeting. If that happens, the question will then be as to whether the MPC will stop at just withdrawing the emergency Bank Rate cut of 0.25% in August 2016, after the result of the EU withdrawal referendum, or whether they will embark on a series of further increases in Bank Rate during 2018.

3 TREASURY MANAGEMENT POLICY STATEMENT - UPDATE

- a) The Treasury Management Policy Statement (the Statement) was approved by Council in April 2010. There have been no policy changes to the Statement. The details in this report update the position in light of updated economic position and budgetary changes.
- b) Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by Council on 9 February 2017. There were no policy changes to the Statement. The details in this report update provides an update on Treasury Management activities, including Prudential and Treasury Management Indicators.

4 COUNCIL’S CAPITAL EXPENDITURE AND FINANCING 2017/18

4.1 This part of the report is structured to update:

- The Council’s capital expenditure plan.
- How these plans are being financed.
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow, and
- Compliance with the limits in place for borrowing activity.

4.2 CAPITAL EXPENDITURE (Prudential Indicator (PI-1))

- a) The original capital plan for 2017/18 was approved on 09 February 2017. **Table 2** shows the current budgets for capital expenditure compared to the original estimates used in the Treasury Management Strategy report for 2017/18 which included net budget timing movements from prior years.

Table 2	2017/18 Original Budget	2017/18 Current Approved Budget ¹	Variance Original to Current Approved
	£m	£m	£m
Assets & Infrastructure	24.7	28.5	3.8
Other Corporate Services	2.7	4.0	1.3
Children & Young People	13.5	16.8	3.3
Culture & Sport	1.8	2.1	0.3
Economic Development	3.1	8.3	5.2
Emergency & Unplanned Schemes	0.3	-	(0.3)
Health & Social Care	0.1	0.4	0.3
Planned Phasing Adjustments	(4.0)	(3.4)	0.6
Total Capital Expenditure (PI-1)	42.2	56.7	14.5

¹ Executive Committee 21 November 2017

b) The current approved budget for 2017/18 is higher than the original budget due to adverse timing movements from February 2017 to 31 March 2017 in areas of the capital plan. Detailed explanations of the movements within the planned expenditure have been reported in the ongoing monitoring reports, the last of which was to the Executive Committee on 21 November 2017. The key drivers for the 2016/17 changes in Table 2 are:

- Assets & Infrastructure – Road and Transport Infrastructure. Total additions to budget amount to £1.86m. Also increases to the Land and Property Infrastructure projects total £0.63m
- Other Corporate Services budget has increased by £2.85m, principally from the inclusion of additional £2.64m ICT Transformation budget.
- Children & Young People – School Estate budget increases amount to £3.32m. The key increases in estimated expenditure result from a net timing movement relating to the construction of Broomlands and Duns Primary Schools
- Economic Development – Additional budget as a timing movement between financial year amounting to £3.6m relates to the Hawick Regeneration project.

4.3 FINANCING OF THE CAPITAL PROGRAMME

a) **Table 3** on the following page draws together the main funding elements of the capital expenditure plans (see 4.2 above), comparing the original components of the funding strategy to those of the latest approved budget for the 2017/18 capital programme.

Table 3	2017/18 Original Budget	2017/18 Current Approved Budget ¹	Variance - Original to Current Approved
	£m	£m	£m
Capital Expenditure (PI-1)	42.2	56.7	14.5
Other Relevant Expenditure	2.0	0.4	(1.6)
Total Expenditure	44.2	57.1	12.9
<i>Financed by:</i>			
Capital receipts	(1.9)	(1.9)	-
Capital from Revenue (CFCR)	(0.3)	(0.4)	(0.1)
Developer Contributions	(1.4)	(1.7)	(0.3)
Govt. General Capital Grant	(14.5)	(15.4)	(0.9)
Govt. Specific Capital Grant	(3.1)	(9.3)	(6.2)
Other Grants & Contributions	(0.9)	(2.3)	(1.4)
Replacement Funds	(2.0)	(1.3)	0.7
Total Financing	(24.1)	(32.3)	(8.2)
Net Financing Need for the Year	20.1	24.8	4.7

¹ Executive Committee 21 November 2017

b) The increase in overall financing need is primarily driven by the additional projected capital expenditure as detailed in table 2, above. Total expenditure is also impacted by a re-profiling of the timing of “Other Relevant Expenditure” which relates to lending to the National Housing Trust project delivered by Bridge Homes LLP amounts to a movement of £1.6m. The impact on net financing need by this increase in expenditure of £13.0m in total, has been negated somewhat by a material increase in Scottish Government

Specific Grants of £6.2m, principally relating to the Hawick Regeneration and Early Learning and Childcare projects. Additional increases in other funding streams as detailed above has also increased total funding, thereby resulting in an increase to the net financing need of £4.7m. .

4.4 CAPITAL FINANCING REQUIREMENT AND EXTERNAL DEBT INDICATORS

CAPITAL FINANCING REQUIREMENT (CFR) (PI-2)

- i) **Table 4** below shows the CFR, which is the underlying need to incur external borrowing for a capital purpose.
- ii) The CFR has been re-calculated in light of the changes to the capital plan and the fixed asset and reserve valuations in the Council's accounts for the year ending 31 March 2017. Accounting transactions relating to the Waverley Railway repayment omitted from original estimate assumptions account for the variance in the CFR as detailed below.

Table 4	2017/18 Original estimate £m	2017/18 Revised estimate £m	Variance £m
CFR * (PI-2)	293.1	301.2	8.1

The CFR for this calculation includes current capital expenditure assumptions to 30 September 2017

ACTUAL EXTERNAL DEBT (PI-5)

- iii) Projected external debt for 2017/18 is shown in **Table 5** below and is estimated to remain within the operational boundary.
- iv) **Table 5** also compares the current projected external borrowing estimate with the estimate in the Annual Strategy. In cash terms, the borrowing figure is higher than originally projected in line with the increased net financing need as detailed above. A variance in cash levels held at the year-end compared to those projected also impact on the variance below.
- v) Additional borrowing amounting to £10.0m has been undertaken in April 2017. Further borrowing of £5.2m is anticipated during the remainder of the year.

Table 5	2017/18 Original estimate £m	2017/18 Current Approved Budget £m	Variance £m
Borrowing	192.4	198.3	5.8
Other long-term liabilities	72.9	72.9	-
Total External Debt (PI-5)	265.4	271.2	5.8

(UNDER)/OVER BORROWING AGAINST CFR (PI-6)

- vi) A key control over treasury activity is a prudential indicator to ensure that, over the medium term, borrowing will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and next two financial years. This allows some flexibility for limited early borrowing for future years.

- vii) **Table 6** compares the prudential indicator for (under)/over borrowing against CFR versus the updated estimate for the year end and shows that the Council's actual debt levels are well within its capital financing requirement. This is primarily driven by the tactical measures which use the Council's surplus cash-flows to finance capital expenditure minimising the need enter into additional debt financing arrangements.

Table 6	2017/18 Original estimate £m	2017/18 Current Approved Budget £m	Variance £m
Gross External Debt	265.4	271.2	5.8
CFR *	291.2	296.3	5.1
(Under)/Over Borrowing against CFR (PI-6)	(25.8)	(25.1)	0.7

* The CFR for this calculation includes the current and two future years projected capital expenditure.

- viii) No difficulties are envisaged for the current or future years in complying with this prudential indicator.

AUTHORISED LIMIT AND OPERATIONAL BOUNDARY (PI-7 and PI-8)

- ix) Two further prudential indicators control the overall level of borrowing. These are:
- (i) The **Authorised Limit** which represents the limit beyond which borrowing is prohibited and the expected maximum borrowing need for the Council. It needs to be set and revised by Members. The Authorised Limit is the statutory limit determined under the Local Government in Scotland Act 2003.
 - (ii) The **Operational Boundary** which shows the expected operational debt position for the period.
- x) **Table 7** below shows revised estimates for the debt indicators for the 2017/18 financial year and compares them with the original estimates shown in the 2017/18 Treasury Management Strategy Report.

Table 7	2017/18 Original estimate £m	2017/18 Revised estimate £m	Variance £m
Gross External Debt (PI-5)	265.4	271.2	5.8
Authorised Limit inc. Long Term Liabilities(PI-8a)	343.6	348.0	4.4
<i>Variance to External Debt Estimate</i>	<i>78.2</i>	<i>76.9</i>	<i>(1.4)</i>
Operational Boundary inc. Long Term Liabilities (PI-7a)	285.0	289.5	4.5
<i>Variance to External Debt Estimate</i>	<i>19.6</i>	<i>18.3</i>	<i>(1.3)</i>

4.5 DEBT RESCHEDULING

Debt rescheduling opportunities continue to have been limited in the current economic climate. No debt rescheduling was undertaken during the first six months of 2017/18. The position will continue to be monitored on an ongoing basis, but current interest rate

forecasts coupled with the corresponding restructuring penalty costs indicate it is unlikely that any debt rescheduling will be undertaken during the remainder of the year.

INVESTMENT ACTIVITY

5.1 INVESTMENTS

- a) In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis and its impact on banks, prompts a low risk strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.
- b) The Council held £11.5m of balances in interest bearing accounts as at 30 September 2017 (£6.1m at 31 March 2017). As a result of current market uncertainties, the Council has been prioritising the security of deposits by investing surplus balances with money market funds and the UK Government's Debt Management Office (DMO).
- c) The increase in the level of balances invested from March to September, highlighted above are due to timing differences between additional borrowing undertaken and corresponding capital expenditure, detailed in section 4.4 above.
- d) The Council, due to the cashflow position and the requirement to manage the Pension Fund cash as well as the Council's, continues to explore opportunities to invest surplus balances in the short term.

5.2 INVESTMENT COUNTERPARTY CRITERIA

- a) The current investment counterparty criterion, approved in the Treasury Management Strategy, represents a prudent approach to risk and the Council's concerns about security of investments. These prudent limits mean there are limited investment options when operating the cash-flow on a short term management basis.
- b) Considering security, liquidity and yield of investment, priority is given to security. Daily updates and reports are received from Capita Asset Services that allow officers to assess the continued credit worthiness of investment counter parties. At the end of September, the Council's bank, The Bank of Scotland had its credit rating upgraded one step by Moody's (one of the three main credit ratings agencies). This is a positive step, given the banks short and long term outlook downgrades by all three agencies in July 2016.
- c) All investments undertaken are on a short term, highly liquid basis, allowing access to invested funds at 1 days notice.
- d) Interest rates are also monitored on a daily basis to ensure the best return is obtained. Target for internal return on cash investment is to be above the 7 Day LIBID rate. The return for six months to 30 September 2017 has averaged 0.16%, compared against an average seven day LIBID rate of 0.11%.

LOAN CHARGES

- a) The **Loan Charges** Revenue Budget estimate contained in the Council's Financial Plans approved on 09 February 2017 was £20.185m. It is expected that charges for 2017/18 will be lower than the budgeted figure, in line with the actual and projected borrowing requirements for the year.

ANNEX A

Indicator Reference	Indicator	Page Ref.	2017/18 Original estimate	2017/18 Revised estimate
PRUDENTIAL INDICATORS				
Capital Expenditure Indicator				
PI-1	Capital Expenditure Limits (£m)	5	42.2	56.7
PI-2	Capital Financing Requirement (£m) (CFR)	7	293.1	301.2
Affordability Indicator				
PI-3	Ratio of Financing Costs to Net Revenue (inc PPP repayment costs)	N/A	9.0%	8.9%
PI-4	Incremental (Saving)/ Cost Impact of Capital Investment Decisions on Council Tax	N/A	(0.02)	(0.04)
External Debt Indicators				
PI-5	External Debt (£m)	8	265.4	271.2
PI-7a	Operational Boundary (inc. Other Long Term Liabilities) (£m)	9	285.0	289.5
PI-7b	Operational Boundary (exc. Other Long Term Liabilities) (£m)	N/A	212.1	216.5
PI-8a	Authorised Limit (inc. Other Long Term Liabilities) (£m)	9	343.6	348.0
PI-8b	Authorised Limit (exc. Other Long Term Liabilities) (£m)	N/A	270.6	275.0
Indicators of Prudence				
PI-6	(Under)/Over Net Borrowing against the CFR (£m)	8	(25.8)	(25.1)
TREASURY INDICATORS				
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt (£m)		285.0	289.5
TI-2	Upper Limit to Variable Interest Rates based on Net Debt (£m)		99.8	101.3
TI-3	Maturity Structure of Fixed Interest Rate Borrowing		Lower	
	Under 12 months		0%	
	12 months to 2 years		0%	
	2 years to 5 years		0%	
	5 years to 10 years		0%	
	10 years and above		20%	
TI-4	Maximum Principal Sum invested greater than 364 days	12	20%	20%

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